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SYNOPSES

PRODUCTIVITY AND CAPITAL INVESTMENTS: AN EMPIRICAL STUDY OF THREE MANUFACTURING INDUSTRIES IN INDIA

Atanu CHAUDHURI, Peter KOUDAL and Sridhar SESHADRI

While manufacturing has long been recognised as an engine of growth and wealth creation in India, the share of manufacturing in the GDP has stagnated at 17% for almost two decades. In particular, the investments in this sector do not seem to match the rate of growth of sales. However, there is significant firm to firm variation in the rate of investment. This study empirically determines factors that explain the within-firm variation in investment growth in three manufacturing industries—auto components, chemicals and electronics—using panel data for the five years spanning 2002 to 2006. In particular, it examines whether successful firms are able to translate their productivity achievements into short and medium term growth when opportunity exists to grow in emerging markets. The results show that there are common firm-specific factors across industries and also some industry-specific factors that explain variation in investments within firms. Factors related to capital or labour productivity account for a large amount of variation within firms. Capital productivity is a significant factor in auto components and chemicals while capital intensity is significant for chemicals and electronics. Labour productivity is significant only for the electronics industry. The role of productivity in explaining variation in investment growth suggests that there is a need to manage productivity improvements from growth point of view and not only for efficiency improvements; firms should also use the right mix of labour and capital and involve industry associations in educating industries on their needs. Firm size and firm-specific interest rate on long-term loans are the other factors significantly affecting investment growth in all the three industries. We discuss the implications of the findings for firms and policy makers, based on the central tendencies and trends of the data, as well as an analysis of the outliers.

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TO PUSH FOR STARDOM OR NOT: A ROOKIE'S DILEMMA IN THE TAMIL MOVIE INDUSTRY

Trichy V. KRISHNAN and A.M. SAKKTHIVEL

A movie is a multi-dimensional product and one of the important factors determining the success of a movie in the vibrant Indian Tamil movie industry is the lead actor. While employing an established actor will enhance the probability of success, producers are willing to try new entrants because they are inexpensive and readily available. However, while actors achieved stardom in the past by acting in many successful movies over time, there is a trend among rookies with one or two successes to push for stardom aggressively, creating a new set of dynamics in the industry. In this paper, we offer a rationale why it makes sense for a successful rookie to try to get on a fast track even though he runs the risk of failure or being replaced with a new entrant. We build a decision-theory based analytical model to study this interesting interaction using data collected from the industry. Our analysis shows that when the probability of success of a successful rookie's movies is assessed to be neither too high nor too low, the rookie would push himself to become a star immediately. A very low probability would discourage him because his failure would doom him forever, and a high probability would encourage him to stay the course, prove himself and ensure higher returns in the long run. The rookie is also more likely to project himself as a star if the producer invests in a movie that pays attention to *all* the attributes of the movie, rather than just the lead actor. Thirdly, if the industry is such that the me-too stars in the long run cannot make more than a small percentage of what a star makes, the successful rookie would try to become a star sooner because by waiting, his chances of good returns from a me-too star status are not very high.

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